

Acquiring Electric Supply An Overview of The New Jersey Basic Generation Service Auction Solicitation Process

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Presented By

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Procedural Overview:

- New Jersey Restructuring Law mandated:
 - Basic Generation Service (BGS) is electric generation service that is provided to:
 - Any customer that has not chosen an alternative electric power supplier; and
 - Any customer that cannot obtain such service from an electric power supplier for any reason, including non-payment for services.
 - The charges assessed to BGS customers shall be fully regulated by the NJBPU.

Procedural Overview Cont:

- Structure as a result of legislation and 1999 BPU decisions
 - Regulated utilities divest generation.
 - Rate caps through July 31, 2003.
 - Electric utilities to file, by June 1, 2001, proposal to procure electric for the period beginning August 1, 2002.
- In June 2001, the NJ electric utilities filed a joint generic proposal to implement a bid process for BGS supply using a simultaneous, multi-round, descending clock auction (“Auction”) format.

Customers with Retail Suppliers

	Residential	C&I
Jan 2000	51,897	12,033
Jan 2001	66,783	36,344
Jan 2002	7,917	453
Total statewide customers 2002	3,136,696	415,552

Started with approx 40 licensed retail suppliers
Education campaign aimed at smaller customers
High expectations

BPU Conclusions

- Pricing needs to be more reflective of the market.
- Electric competition is off the screen for smaller customers.
- Electric market is different from Telco.
 - No legitimate slamming complaints.
- By Order dated December 11, 2001, the NJBPU approved the BGS auction proposal proposed by the NJ electric utilities.

Auction Description:

- **Simultaneous multi-round descending clock auction**
 - BGS load for all four NJ electric utilities is auctioned simultaneously;
 - Auction is a “reverse auction” or procurement auction – where bids are offers to supply at a price (not buy as in more common auction) – so bids offers decline through auction;

Auction Description Cont:

- Auction is conducted in a series of rounds, each with an announced starting and ending time.
- Auction ends when, for each of the four EDCs, the supply bid equals the BGS quantity needed by all four EDCs.
- Auction approval process:
 - Auction results must be addressed by the NJBPU by the end of the second business day after the close of the auction.
 - Auction results must be accepted or rejected for all NJ electric utilities in their entirety or for none of them.

Advantages of Auction:

- Efficiency – BGS is supplied by lowest-cost suppliers
- Lowest prices – leads to lowest possible prices for BGS supply
- Market value – leads to BGS prices that reflect market forces
- Proper risk sharing – risk is borne by those who can manage it at lowest cost
- Transparency – leads to more aggressive bidding
- Objective and fair – attracts more bidders and minimizes post-auction challenges

2002 BGS Auction:

- **Period: August 1, 2002 to July 31, 2003**
- **What was bid?**
 - Full requirement slices, a.k.a. tranches, of BGS load of each NJ electric utility. This includes: energy, capacity, load following, ancillary services and transmission. Each winning bidder will become the PJM Load Serving Entity (LSE) for the load they have won in the auction.
 - Each utility's load was considered one product in the auction.
 - Each utility product was broken down into slices/tranches that are approximately 100 Mws in size for each utility (each winning bidder will serve a fixed percentage of BGS load).
 - These products differ due to items such as load factor, size of load, congestion costs, etc.
 - utility will still be required to perform all customer account services (i.e.billing, metering)

2003 BGS Auction:

- **Same format as 2002 auction.**
 - Simultaneous multi-round descending clock auction.
 - 1750 larger customer to have hourly-priced default service.
- **What was bid:**
 - For the larger customers on hourly pricing (CIEP) the right to be the default provider backstop (capacity as bid product).
 - For the remaining customers, fixed price service (FP), the full load requirement of BGS load of each electric utility. This includes: energy, capacity, load following, ancillary services and transmission.

2003 BGS Auction cont:

- **Notable changes from previous auction:**
 - Removal of all customer switching restrictions.
 - Bring auction schedule in line with PJM markets.
 - Auction periods:
 - One 10 month auction for large commercial and industrial customers (CIEP customers);
 - For FP customers there was a 10 and 34 month auctions.
 - Supply pricing for customers receiving BGS:
 - CIEP customers would pay auction price, administrative fee, PJM spot energy price;
 - FP customers would continue to pay a fixed price based on auction results.

2003 Results

- Both Auctions started on February 3, 2003
- 23- FP bidders, 10- CIEP bidders
- Completed in 2 days
 - FP – 14 rounds, CIEP - 15 rounds
- Number of winning bidders : FP – 15, CIEP – 8
- Produced market-based pricing results

Effects of 2003 Auction

- All customers in CIEP class provided with hourly meters by the EDCs.
 - EDCs allowed to recover cost of installing new meters.
- Many customers affected by switch to hourly pricing appear to have the sophistication necessary to make an informed decision concerning their energy usage.
 - However, evidence indicates further education is required for others.
- As of December 31, 2003, 56% of the customers on hourly pricing, switched to an alternative electric power supplier. These customers represent 76% of the total CIEP load.
- Preliminary evaluations indicated that the CIEP customers that have remained on hourly pricing have not been hurt by this decision, and may have even reduced their electric costs.
- CIEP customer reaction appears favorable, to date.
 - 56% of customers and 76% of load with retail provider as of 12/31/03.
 - Further data needed
- FP customers received a competitive fixed price offer

2004 BGS Auction:

- **Same format as 2002/03 auctions.**
- **Notable changes from previous auction:**
 - One-third of required FP load for one year, one-third for three years;
 - Mandatory expansion of the CIEP class to include all commercial & industrial (“C & I”) customers with a peak load share (“PLS”) of 1500 kw and greater
 - Adds approximately 128 accounts to the CIEP class
 - Allow for limited, voluntary participation in the CIEP class, by any C & I customer
 - Approximately 100 customers volunteered statewide

2004 Results

- Both Auctions started on February 2, 2004
- CIEP Auction completed on February 6, 2004, after 52 rounds.
- FP Auction completed on February 10, 2004, after 71 rounds
- Number of winning bidders: FP –12, CIEP – 6
- Highly competitive Auction produced annual statewide rate reduction, for residential customers, of approximately \$24 Million

2002 Auction Prices:

- Final Auction Prices and bidders:

● PSE&G	5.11 cents/Kwh
● JCP&L	4.87 cents/Kwh
● Conectiv	5.12 cents/Kwh
● RECo	5.82 cents/Kwh

2003/2004 Auction Price Comparisons:

	ACE	JCP&L	PSE&G	Rockland	Average
1-YEAR FP					
2003	5.26	5.042	5.386	5.557	5.3113
2004	5.473	5.325	5.479	5.566	5.46075
% Increase	4.05%	5.61%	1.73%	0.16%	2.89%
3-YEAR FP					
2003	5.529	5.587	5.56	5.601	5.5693
2004	5.513	5.478	5.515	5.597	5.52575
% Increase	-0.29%	-1.95%	-0.81%	-0.07%	-0.78%

Auction Price Comparisons

	ACE	JCP&L	PSE&G	Rockland	Average
1-YEAR CIEP					
2003	56.1	65.25	60	59.8	60.288
2004	49.9	54.98	52.01	57.69	53.645
% Increase	-11.05%	-15.74%	-13.32%	-3.53%	-10.91%

Auction Price Comparisons

		ACE	JCP&L	PSE&G	Rockland	Average
3-YEAR FP	Comparison to 2003 10-month Prices					
	2003 1-Year	5.26	5.042	5.386	5.557	5.3113
	2004 3-Year	5.513	5.478	5.515	5.597	5.52575
% Increase		4.81%	8.65%	2.40%	0.72%	4.14%
3-YEAR FP	Comparison to 2004 1-year Prices					
	2004 1-Year	5.473	5.325	5.479	5.566	5.46075
	2004 3-Year	5.513	5.478	5.515	5.597	5.52575
% Increase		0.73%	2.87%	0.66%	0.56%	1.20%

Why Hourly Pricing

- removes cross subsidization issues
- removes customer class generalizations
- makes conservation and load management more attractive
- improves the retail competitive environment and
- generally places more control in customer's hands.

Barriers to Implementation of Hourly Pricing

- Most customers are not equipped with hourly meters
- time and considerable money to make this changeover
- can lead to uncertainty in auction process
- smaller customers not focused on their electric options
- may result in unforeseen consequences.

Education

- NJBPU Staff worked closely with the EDCs to develop an educational program for customers put on hourly pricing, in order to assist customers address their concerns and make informed choices.
- The educational program included informational packets mailed to each customer, as well statewide training seminars held in each EDC service territory.
- Alternative electric power suppliers and energy consultants also participated in these seminars.

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